MANAGEMENT DISCUSSION AND ANALYSIS AND
FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

DCH SYSTEM

DICKINSON COUNTY HEALTHCARE SYSTEM

(A COMPONENT UNIT OF DICKINSON COUNTY)

IRON MOUNTAIN, MICHIGAN

Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☑ Other	**Dickinson County Healthcare System**	**Dickinson**

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
12/31/05	**3/17/06**	4/27/06

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☑ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ Yes ☑ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☑ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☑ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☑ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✔		
Reports on individual federal financial assistance programs (program audits).			✔
Single Audit Reports (ASLGU).			✔

Certified Public Accountant (Firm Name)			
Eide Bailly LLP			
Street Address	City	State	ZIP
406 Main Ave. Ste. 3000	**Fargo**	**ND**	**58108-2545**
Accountant Signature: Richard Ostler		Date: 4/24/06	

DICKINSON COUNTY HEALTHCARE SYSTEM

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Dickinson County Healthcare System's (Healthcare System's) financial performance provides an overview of financial activities for the fiscal years that ended on December 31, 2005, 2004, and 2003. This financial report is designed to provide our local citizens, customers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Healthcare System's Financial Offices, 1721 S. Stephenson Avenue, Iron Mountain, Michigan, 49801.

FINANCIAL HIGHLIGHTS

Year Ended December 31, 2005

- The Healthcare System's net assets increased in 2005 by $1.2 million, or 3.7% with income before capital contributions of over $1.0 million, comprised of operating income of $2.6 million less non-operating expenses in excess of revenue of $1.6 million, plus $197 thousand of capital contributions for this total significant annual addition to equity.

- During 2005, the Healthcare System's total operating revenues increased to $62.9 million or 4.0% over the $60.5 million in 2004, while expenses of $60.4 million in 2005 were 2.7% above the $58.8 million in 2004. The resulting operating income for 2005 was 4.1% of total operating revenue compared to 2.8% in 2004.

- The Healthcare System enhanced and expanded services to the community in 2005 through the following successful initiatives and other significant expenditures on capital projects:

    - The recruitment of an Urologist in cooperation with BellinHealth of Green Bay, Wisconsin brought the ability to do new, minimally invasive procedures, including laser treatment of kidney stones and new methods to treat cancer.
    - The recruitment of an additional orthopedic surgeon filled the gap in this service, which had required the Healthcare System to enter into costly contracts with distant surgeons for temporary periods of coverage in the prior year.
    - The expanded imaging services through the new MRI brought the ability to perform advanced exams that are quieter, of better quality and which provide the option of feet-first exams. Opened July 5, 2005, the increased number of exams through the last half of the year is indicative of the community's need and support of this service. The additional investment in the 16,800 square foot addition to the facility also enhanced and consolidated physical rehabilitation services, which also saw increases in patient volumes.
    - Begun in 2005, a major information technology project to replace the hospital information systems, including modules for patient finance, registration, scheduling, medical records and nursing documentation will provide the future ability to use electronic medical records.
    - Other information technology projects were completed, including the installation of a storage area network with a separate disaster recovery site and installation of a digital physician dictation system.
    - A project to provide filmless imaging services through the use of a picture archiving and communications system (PACS) with an ultrasound and other computerized radiography interfaces and a radiology information system was 80% complete by year-end.

Years Ended December 31, 2004 and 2003

- The Healthcare System's net assets increased in 2004 by $238 thousand, or 0.7% given operating income of $1.7 million, non-operating expenses in excess of revenue of ($1.6) million, and $108 thousand of capital contributions. In 2003 the net asset increase was $904 thousand or 2.8 %.

- During 2004, the Healthcare System's total operating revenues increased to $60.5 million or 2.9% over the $60.5 million in 2003, while expenses increased to $58.8 million or 4.6% over the $58.8 million in 2003. The resulting operating income for 2004 was 2.8% of total operating revenue compared to 2.8% in 2003.

- Income before capital contributions was $130 thousand compared to $130 thousand in 2003. The non-operating investment income, excluding the unrealized amounts, decreased $129 thousand in 2004 from the prior year's earnings due to reductions in investments for capital expenditures and slightly lower total returns. Interest expense decreased $99 thousand due to principal payments. Other non-operating revenue includes contributions and the loss on sale of capital items. Unrestricted general contributions were $125 thousand in 2004 compared to $125 thousand received in the prior year and the loss on the disposal of capital equipment was $153 thousand less than that in 2003.

- During 2005 and 2004, the Healthcare System made the following significant expenditures on capital projects:

    - Installed a second CT scanner in 2004 and commenced construction of a major two-story addition to the DCMH facility to house a Fixed MRI and relocate rehabilitation services and other departments.
    - Completed the project to replace the General Financial, Materials Management and Human Resources systems in 2004.
    - Completed construction of a new access road and expanded parking for the Dickinson Medical Building and hospital employees in 2003.
    - Completed two clinic facilities in 2003 for which construction began in 2002.

The source of funding for capital projects was derived from the proceeds of a $5 million debt issue in August 2004 and from current and prior years' operations and capital contributions from the public through the Dickinson County Hospital Foundation. No government funding from taxes or any other source was used for capital or operating purposes.

REQUIRED FINANCIAL STATEMENTS

The Basic Financial Statements of the Healthcare System report offers short-term and long-term financial information about its activities and financial status.

The *Balance Sheet* includes all of the Healthcare System's assets, liabilities and net assets. It provides information about the nature and amounts of cash, receivables and investments in resources (assets) and the obligations to creditors (liabilities) at the end of each year presented. It also provides the basis for evaluating the debt and capital structure, and assessing the liquidity and financial flexibility of the Healthcare System. A summary table of this statement is presented later in this discussion and analysis.

All of the annual revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the annual financial performance of the Healthcare System's operations over the past two years and can be used to determine whether all of its paid and accrued costs have been covered by patient service revenue and other revenue sources that were received or receivable with an excess or a deficit for each year. A summary table of this statement is presented later in this discussion and analysis.

The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Healthcare System's cash provided by or used in its operating, financing, and investing activities in each of the last two years, and the to show the cash on hand at the beginning and end of the two preceding annual periods.

FINANCIAL ANALYSIS OF THE SYSTEM

The condensed *Balance Sheets* of the Healthcare System as of December 31, 2005, 2004, and 2003 is summarized in the following table.

CONDENSED BALANCE SHEETS
DECEMBER 31, 2005, 2004, AND 2003 (in thousands)

	2005	2004	2003
Total current assets (includes the current portion of restricted assets)	$ 15,218	$ 19,204	$ 12,995
Cash and investments internally designated for capital acquisitions	10,385	10,748	13,783
Cash and investments internally designated for other purposes	1,160	1,404	1,359
Cash and investments restricted by bond indentures	3,774	5,416	2,394
Deferred financing costs, net	299	324	301
Capital assets, net	45,604	41,635	39,357
TOTAL ASSETS	$ 76,440	$ 78,731	$ 70,189
Total current liabilities	$ 8,880	$ 11,352	$ 6,858
Long-term debt, net of current portion	32,384	33,343	29,299
Other long-term liabilities	1,055	1,138	1,372
TOTAL LIABILITIES	42,319	45,833	37,529
TOTAL NET ASSETS	34,121	32,898	32,660
TOTAL LIABILITIES AND NET ASSETS	$ 76,440	$ 78,731	$ 70,189

Assets and Liabilities:

Assets represent the resources of the Healthcare System and liabilities its obligations. Net assets are the resources available to provide benefits in the future.

Current Assets are principally comprised of cash and receivables. Net patient accounts receivable represented 39.8 days' of net revenue at December 31, 2005. A major improvement in patient accounts receivable was accomplished in 2004 by reducing a backlog in completing medical records, which expedited billing. This resulted in a 21.5% decrease in the number of net days' revenue in accounts receivable to 40.5 at the end of 2004 from 51.6 at the end of 2003. Because of the reduction in accounts receivable in mid-year 2004, additional amounts of cash and investments are available as current assets to meet our current obligations.

The number of days of total cash and investments was 123.9 at December 31, 2005, 168.4 at December 31, 2004, and 125.2 at December 31, 2003. This ratio shows how total funds compare to daily cash operating expenses plus interest expense.

The total cash and investments at December 31, 2005 were $21.1 million including restricted funds for debt service of $3.6 million and $1.4 million of unexpended proceeds from an August 2004 debt issue restricted by the loan indenture for capital assets. Total cash and investments at December 31, 2004 were $27.9 million including restricted funds of $3.4 million expendable for debt service and the $3.2 million of unexpended proceeds from the August 2004 debt issue. Total cash and investments December 31, 2003 were $20 million including the $3.6 million of funds restricted for debt service by bond indenture. Excluding the restricted amounts, the ratios for 2005, 2004, and 2003 were 94.6 days, 128.7 days, and 102.9 days respectively. The principal causes of the reduction of cash and investments in 2005 were the planned capital expenditures and the payback of amounts to third-party payers in the ordinary course of the settlement process.

Current Liabilities at December 31, 2005 are substantially lower than December 31, 2004 due to the status of estimated settlements with third-party payers. Estimated settlements payable (principally to Blue Cross, Blue Shield of Michigan) were down a total of $2.3 million because of a payback in 2005 of approximately $1.9 million of amounts routinely paid for services in 2004. A favorable outcome related to a Medicare settlement for a prior year caused an additional reduction in the estimated liability.

The Healthcare System's current liabilities at December 31, 2004 were $4.5 million greater than December 31, 2003. This was primarily due to the amount of estimated third-party settlements, which accounted for $3.2 million of the increase. The increase was due to the fact that interim payments exceeded the amount that ultimately was due under the reimbursement methodologies in effect for 2004 services by about $1.6 million and this was recorded as a net payable. Whereas at December 31, 2003, approximately $1.3 million was estimated to be due to the Healthcare System (a net receivable) for 2003 services.

The Healthcare System's current ratio (current assets divided by current liabilities) is 1.71 at December 31, 2005, 1.69 at December 31, 2005, and 1.89 at December 31, 2003.

Long-Term Debt:

The Healthcare System had long-term debt of $32.4 million at December 31, 2005, $33.3 million at December 31, 2004, and $29.3 million at December 31, 2003 (net of current maturities of $1.2 million in 2005 and 2004 and $1.1 million in 2003). The Healthcare System issued Hospital Revenue Bonds, Series 2004 in the amount of $5 million for capital projects to be completed in 2005 and 2006. The payments on the Series 2004 debt-issue are made monthly with a 25-year term. Long-term debt represents 96.8% of the Healthcare System's total long-term liabilities and 76.5% of total liabilities at December 31, 2005 as compared to 96.7% and 72.7% at December 31, 2004 and 95.5% and 78.1% at December 31, 2003.

The debt service coverage ratio for the years ended December 31, 2005, 2004, and 2003 was 2.24, 1.95, and 2.18 respectively. This ratio shows how the sum of income before capital contributions (adjusted for unrealized gains or losses on investments and before deducting depreciation and interest expense) compares to the total cash paid for debt service (principal plus interest) in the applicable year.

Components of Net Assets (in thousands):

	December 31,		
	2005	2004	2003
Invested in capital assets, net of related debt	$ 12,006	$ 7,096	$ 8,968
Restricted by Revenue Bond Indentures, expendable for capital assets	1,412	3,220	-
Restricted by Revenue Bond Indentures, expendable for debt service	3,411	3,194	3,386
Unrestricted	17,292	19,388	20,306
Total net assets	$ 34,121	$ 32,898	$ 32,660

The overall increase in net assets in 2005 is due to operating income and capital contributions. The restricted amount for capital assets represents the unexpended portion of the proceeds from the August 2004 debt issue. This amount will be spent for capital projects in 2006. The restricted amount for debt service represents the funds held by the trustee for the Series 1999 bonds, and this amount increased because one extra monthly payment was made to the Principal and Interest Fund in 2005. This will be handled as a pre-payment against the 2006 payments. Unrestricted net assets decreased due to the purchase of capital assets and the required deposits to the restricted funds for debt service.

The overall increase in net assets in 2004 was also due to operating income and capital contributions. The $5 million debt issuance in August 2004 is the principal cause of the decrease in the amount invested in capital minus all capital related debt. The restricted amount for capital asset acquisitions represents the unexpended portion of the proceeds from that debt issue. Some of this amount was spent for capital projects in 2005 and will fund other projects in 2006. The restricted amount for debt service represents the funds held by the trustee for the Series 1999 bonds, and this amount decreased due to the reduction in the related debt service requirements. Unrestricted net assets decreased due to the purchase of capital assets and the required deposits to the restricted funds for debt service.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The condensed statements of revenues, expenses, and changes in net assets of the Healthcare System for the years ended December 31, 2005, 2004, and 2003 is summarized in the following table.

CONDENSED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003 (in thousands)

	2005		2004		2003	
REVENUE AND (EXPENSES):						
Net patient service revenue	$ 62,400	100.0%	$ 59,954	100.0%	$ 58,178	100.0%
Other revenue	541	0.9%	547	0.9%	593	1.0%
Total operating revenue	62,941	100.9%	60,501	100.9%	58,771	101.0%
Total operating expenses	60,352	96.7%	58,816	98.1%	56,241	96.7%
OPERATING INCOME	2,589	4.1%	1,685	2.8%	2,530	4.3%
Investment income	911	1.5%	730	1.2%	859	1.5%
Unrealized gains and losses on investments	(180)	-0.3%	(235)	-0.4%	(227)	-0.4%
Interest expense	(2,210)	-3.5%	(2,151)	-3.6%	(2,250)	-3.9%
Other non-operating revenue and expenses (net)	(84)	-0.1%	101	0.2%	(143)	-0.2%
Non-operating expenses in excess of revenue	(1,563)	-2.5%	(1,555)	-2.6%	(1,761)	-3.0%
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,026	1.6%	130	0.2%	769	1.3%
CAPITAL CONTRIBUTIONS	197		108		135	
INCREASE IN NET ASSETS	1,223		238		904	
NET ASSETS - BEGINNING OF YEAR	32,898		32,660		31,756	
NET ASSETS - END OF YEAR	$ 34,121		$ 32,898		$ 32,660	

SOURCES OF FINANCIAL SUPPORT

The Healthcare System relies upon its revenues and public contributions received directly or through the Dickinson County Hospital Foundation for 100% of its financial support. No tax revenue is received either directly from local taxpayers or through fund transfers from Dickinson County or other governments. Revenue is comprised of operating revenue, which is principally from healthcare services and non-operating revenue which is principally from investment income.

Operating Revenue:

Net patient revenue is reported as the result of subtracting estimated contractual allowances, provisions for charity care and the provision for bad debts from gross revenue recorded at our established rates. Total gross revenues for all patient services performed by the Healthcare System were $141.9 million in 2005, $132.3 million in 2004, and $126.0 million in 2003. The overall increases include the impact of price increases of 9% for hospital services and 5% for physician practices on February 1, 2005 and January 1, 2004 respectively. The 7.3% total increase in gross charges in 2005 and the 5.0% increase in 2004 also reflect the year-to-year differences in patient volumes, as presented in the Operating Results discussion in a later section. Gross revenue is based upon the services provided at our established rates. To the extent the Healthcare System receives payment under fixed rates by third-party payers as explained below, the price increase has a diminished effect on net patient revenue.

The services performed under contractual arrangements with Medicare, Michigan Medicaid, Blue Cross Blue Shield of Michigan and other contractual payers are recorded on the day of service at the established charges of the Healthcare System. In order to determine net patient service revenue, provisions for contractual allowances are recorded to recognize deductions from revenue resulting from contractual allowances under various reimbursement arrangements. These provisions, including adjustments for prior years' settlements give rise to the amount included in current liabilities as a net payable, which decreased significantly in 2005.

Management maintains systems and procedures to administer and comply with the payment contracts and files cost reports on an annual basis. The reimbursement methods include payer audits and reviews of cost reports and individual claims that sometimes result in adjustments to amounts previously paid, additional payments, or denial of payment. Management applies estimates to provide for these payment and adjustments, and it continually reviews and adjusts those estimates until all reimbursement for a given year has been finalized.

The Healthcare System provides care without regard to the ability to pay. Free or reduced-rate care is provided based on family income. For the years ended December 31, 2005, 2004, and 2003, the Healthcare System deducted approximately 0.8%, 0.7%, and 0.5% respectively, from its gross charges for services provided to patients who documented their inability to pay. Collection efforts are pursued if the bills for services are not paid and qualification for free or reduced-rate care has not been established. Some portion of the resulting bad debt adjustment also includes free care to persons who would have qualified for free or reduced-rate care had they provided documentation of income.

Bad debt provisions were 2.4% of gross charges in 2005, 2.3% in 2004, and 2.5% in 2003. Management estimates the allowance for doubtful accounts by applying percentages to an aged trial balance of accounts collectible from patients, and includes provisions to account for balances currently due from insurance companies that may be subsequently denied with the ability to collect from the patient in doubt.

The resulting net patient services revenue (Gross revenue minus free care allowance and contractual allowances and minus the provision for bad debt expense) was 44.0% of gross revenue in 2005, 45.3% in 2004, and 46.2% in 2003. Net patient services revenue increased $1.8 million or 3.1% from 2003 to 2004 and $2.4 million or 4.1% from 2004 to 2005 due to the remaining net effect of price increases, net improvement in third-party payment rates, the additional payments received for prior years' cost report settlements, and the slight decline in overall patient volumes in 2004 and 2005 as presented in the Operating Performance section of this discussion.

Nonoperating Revenue:

Investment income was $911 thousand for 2005, $730 thousand for 2004, and $859 thousand for 2003. The increase in investment income in 2005 is due to the timing of withdrawals of investments for capital expenditures and other purposes during 2005 and in 2004, and also the effect of higher yields on the fixed income securities and money market accounts which comprise our investments. All cash in excess of daily operating requirements is invested. The investment manager considers the cash flow budgets and plans of the Healthcare System as well as the underlying market conditions in decisions to purchase and sell bonds issued by or backed by the full faith and credit of the United States of America. Management and the Board of Trustees monitor the investment manager performance. The bond portfolio has a conservative duration, and management does not foresee a need to sell any of the bonds at a loss. However, the investments are adjusted to fair value, and the resulting unrealized gain or loss is reflected in the present period. The unrealized losses on investments were $180 thousand in 2005, $235 thousand in 2004, and $228 thousand in 2003.

Capital Contributions:

Capital contributions received during 2005 of $197 thousand consist of donations to the Healthcare System for the Fixed MRI unit, upgrades to enable cardiac echo procedures and laser treatments and continuous blood glucose monitoring systems. Capital contributions received during 2004 of $108 thousand were received for emergency department equipment and a laboratory information system component. Fiscal year 2003 capital contributions of $135 thousand consisted of donations to the Healthcare System for improvements to an access road to the main facility and for radiology equipment acquisitions.

EXPENDITURE OF FUNDS

Operating Expenses:

The components of operating expenses for the Healthcare System for the years ended December 31, 2005 and 2004 is summarized in the following table:

COMPONENTS OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (in thousands)

	2005	2004	Increase/ (Decrease)	
Salaries, wages and employee benefits	$ 37,983	$ 37,325	$ 658	1.8%
Supplies and pharmaceuticals	7,798	7,787	11	0.1%
Professional fees and other purchased services	10,696	10,290	406	3.9%
Depreciation and amortization	3,875	3,414	461	13.5%
Total	$ 60,352	$ 58,816	$ 1,536	2.6%

Employee compensation and benefits increased $658 thousand or 1.8%. The annual average full-time equivalent positions for 2005 increased by 1.2% from the 2004 average. Productive hours per adjusted discharge increase 2.3%, which is caused by the patient volume decline relative to some required minimum or fixed staffing levels. Two Unions represent approximately 64% of total employees. A new three-year agreement with one of the Unions was successfully negotiated prior to the expiration of the former contract in May 2005. The present contracts expire in May 2008 and December 2006. Salaries, wages and benefits have been maintained on a competitive basis, and no critical shortages of labor have been experienced.

The cost of supplies and pharmaceuticals increased $11 thousand or 0.1%. This was normal inflation net of usage reductions due to lower patient volumes.

Professional fees, purchased services and other expenses for 2005 increased $406 thousand or 3.9%. Significant increases included the following areas where fees were higher than in 2004: Equipment and software maintenance contracts increased $245 thousand while temporary coverage in the Pediatrics Clinic increased $199 thousand and medical professional fees of $189 thousand for Urology were incurred. Significant decreases included: In 2004, the Healthcare System elected to provide coverage by paying fees to orthopedic surgeons on a temporary basis due to changes in the practices of local surgeons. A new surgeon was recruited to the area and began covering services locally in 2005. The expense provision related to professional claims deductibles decreased significantly in 2005.

Depreciation and amortization expense for 2005 increased $461 thousand or 13.5%, principally due to the completion of the building addition and purchase of the fixed MRI unit.

The components of operating expenses for the Healthcare System for the years ended December 31, 2004 and 2003 is summarized in the following table:

COMPONENTS OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (in thousands)

	2004	2003	Increase/ (Decrease)	
Salaries, wages and employee benefits	$ 37,325	$ 34,669	$ 2,656	7.7%
Supplies and pharmaceuticals	7,787	8,830	(1,043)	-11.8%
Professional fees and other purchased services	10,290	9,424	866	9.2%
Depreciation and amortization	3,414	3,318	96	2.9%
Total	$ 58,816	$ 56,241	$ 2,575	4.6%

Employee compensation and benefits increased $2.7 million or 7.7%. Salaries and wages increased by $1.4 million or 5.3%.Total paid hours per adjusted discharge were 105.2 in 2004 and 108.6 in 2003, a reduction of 3.1%. Total full-time equivalent positions decreased by 1.4%. Salaries and wages per full-time equivalent position was $46,384 in 2004, an increase of 6.8% from 2003. Two Unions represent approximately 64% of total employees. Employee benefit costs were 32.5% of salaries and wages in 2004 and 29.7% in 2003. Benefit costs increased 15.5% overall with health insurance, a major component, increasing least of all at 7.2%, while the cost of paid time off and workers compensation contributed above average increases. No critical shortages of labor were experienced.

The cost of supplies and pharmaceuticals decreased $1.0 million or 11.8%. This was due to the reduction in patient volumes.

Professional fees, purchased services, and other expenses for 2004 increased $866 thousand or 9.2%. Significant increases included the following areas where fees were higher than in 2003: temporary coverage by orthopedic physicians increased $238 thousand, cost of professional liability claims deductibles increased $150 thousand and advertising expenses increased $107 thousand.

Non-operating Expense Items:

Interest expense was $2.2 million per year in 2005 and 2004 and $2.3 million in 2003. There was no change in debt structure during 2005. The Healthcare System capitalized $171 thousand of interest expense related to the construction of the building addition in 2005.

Capital Expenditures:

In 2004, the Healthcare System broke ground on a new building addition to the front of the Dickinson County Memorial Hospital facility. During 2005, the Healthcare System completed the construction of the addition. The cost of the construction project will be $4.1 million. The two-story addition houses a new fixed MRI unit that replaced a mobile unit and provides expanded space for physical rehabilitation services, permitting consolidation of its cardiac rehabilitation program formerly housed in the Dickinson Medical Building. Projects to furnish and equip the expanded Imaging and Physical Rehab areas in the addition were also completed.

Major medical imaging technology projects that commenced in 2004 included the addition of a multi-slice CT scanner at a cost of $988 thousand that became operational in May of 2004, a fixed site MRI unit that became operational in July 2005 at a cost of $1.8 million and a picture archiving and communications system (PACS) and radiology information system (RIS) with a projected completion date in 2006. Of the anticipated PACS/RIS cost of $1.4 million, approximately $818 thousand was expended in 2005. As part of the project to move toward filmless procedures, a related computerized radiography project was completed in 2005 at a cost of $286 thousand.

Major upgrades to information technology have been carried out since 2002 and are ongoing. The project to replace core elements of the hospital information system for billing, medical records, order communications, registration, nursing documentation and pharmacy commenced in 2005 with an expected go live date in 2007. Of the anticipated costs to complete this major systems replacement of $2.7 million, costs incurred in 2005 were $500 thousand. The enterprise resource procurement system replaced components of the present hospital information system in the areas of materials management, human resources and fiscal services in 2004 at a cost of $1.8 million incurred over a two and one-half year period.

Renovations in the Dickinson Medical Building for the Pediatric Clinic and the Upper Peninsula Sleep Center also commenced in 2005 with completion expected the first quarter of 2006. Costs incurred in 2005 were $197 thousand with additional expenditures of $232 thousand expected in 2006 to include both construction and furnishings.

OPERATING RESULTS

The following summarizes the operating results of the Healthcare System and its business units as reflected in the Statements of Revenue, Expenses, and Changes in Net Assets.

Dickinson County Healthcare System:

Fiscal Year 2004 to 2005

The overall activity of the Healthcare System, as measured by patient discharges adjusted for outpatient services and all other operating revenue, showed a slight decrease from the prior year. Adjusted discharges for 2005 were 12,463 compared to 12,705 adjusted discharges in 2004. This was a decrease of 1.9%. The adjusted discharge statistic is used as the means to measure the overall activity volume of the Healthcare System. Patient revenue before the bad debt provision per adjusted discharge was $5,282 in 2005, a 6.6% increase from the 2004 amount of $4954. Operating expense per adjusted discharge including the bad debt provision and interest expense was $5,295 in 2005, a 5.2% increase from the 2004 amount of $5,033 due to a high percentage of fixed costs such as depreciation and interest. Despite the overall decrease in patient volumes, operating income increased significantly. This was largely due to the control of overall expenses.

Fiscal Year 2003 to 2004

The overall activity of the Healthcare System, as measured by patient discharges adjusted for outpatient services and all other patient revenue, was relatively flat at 12,008 adjusted discharges for 2004 compared to 11,795 adjusted discharges in 2003. This was an increase of 1.8%. Patient revenue before the bad debt provision per adjusted discharge was $5,241 in 2004, a 0.7% increase from 2003. Operating expenses including the bad debt provision per adjusted discharge was $5,146 in 2004, a 2.1% increase from 2003. Improvements in productivity and a decrease in supplies and pharmaceuticals helped control expenses relative to patient volumes, while fixed costs had an adverse effect resulting in a decrease in operating income for 2004.

Dickinson County Memorial Hospital:

Fiscal Year 2004 to 2005

Inpatient activity levels at the Dickinson County Memorial Hospital (DCMH) facility for 2005 comprised about 36.7% of net patient revenue of the Healthcare System. Total patient days and discharges of acute inpatients were 14,991 and 3,901, respectively in fiscal year 2005. This is a decrease of 2.1% and 3.5%, respectively, from fiscal year 2004.

Total outpatient visits at DCMH were 158,287, or 6.3% above 2004 levels. This follows three years of declining outpatient visits after dramatic annual growth rates through 2001 since the new facility opened in 1996. In mid-2005 the new MRI began serving patients, replacing a mobile unit, and the public open house of the new building addition received much attention in the community. We believe that the fixed site MRI services and expanded physical rehabilitation areas in the new building addition contributed significantly to this turn-around in 2005. Outpatient visits for recurring services (such as physical rehabilitation) of all the patient visit types showed the largest percentage increase of 13.8% in 2005. MRI procedures increased 11.5% in 2005. DCMH outpatient services are 64.8% of gross patient revenue of the Healthcare System and contribute a positive contribution margin toward operating income.

Fiscal Year 2003 to 2004

Inpatient activity levels at the Dickinson County Healthcare System (DCMH) facility for 2004 comprised about 36.4% of net patient revenue of the Healthcare System. Total patient days and discharges of acute inpatients were 15,318 and 4,043, respectively in fiscal year 2004. This was a decrease of 11.3% and 4.7%, respectively, from fiscal year 2003. The larger percentage change in patient days than in discharges is indicative of the success of the project to lower average length of stay.

Total outpatient visits at DCMH were 148,967, or 1.0% below 2003 levels. Outpatient surgery was the most dramatic area of decline, showing a 9.3% decrease in visits in 2004. DCMH outpatient services were approximately 53.5% of patient revenue of the Healthcare System and contributed a positive contribution margin toward operating income.

Physician Services and Other Operating Units:

Fiscal Year 2004 to 2005

Total visits to physicians at the Healthcare System's clinics and physician practices were steady at 39,382, or 1.3% above 2004 levels. In total, the Physician Services component unit contributes slightly more than 4.8% of patient revenue of the Healthcare System. The clinic and physician practice expenses exceeded their operating revenue.

Dickinson Home Health (DHH) saw 450 patients in 2005, or 27% more than 2004 levels. The closing of Dickinson/Iron County Home Health had a substantial impact on DHH operations, especially in the areas of skilled nursing and physical therapy. Staffing levels were increased in several areas and there is still work in progress to meet the needs of these patients. Dickinson Home Medical Equipment (DHME), which shares the location and management of DHH operations, also increased total revenue in 2005 as a result of increased community awareness and from efforts to establish agreements with extended care facilities to provide oxygen and related equipment to their clients. On a combined basis, these activities contributed to operating income in both 2005 and 2004, and they comprise slightly more than 3.2% of patient revenue of the Healthcare System.

The Upper Peninsula Sleep Center contributes 0.8% of net patient revenue and contributed to income of the Healthcare System in 2005. The DCHS unit is the only sleep center accredited by the American Academy of Sleep Medicine in the upper peninsula of Michigan, and was staffed by five certified diagnostic technologists in 2005 (100% of the staff).

Fiscal Year 2003 to 2004

Total visits to physicians at the Healthcare System's clinics and physician practices were at 38,885, or 4.1% below 2003 levels. In total, the Physician Services component unit contributed slightly more than 5.1% of patient revenue of the Healthcare System in 2004. The clinic and physician practice expenses exceeded their operating revenue.

Dickinson Home Health (DHH) saw 354 patients in 2004, or 6.0% more than 2003 levels. The increase was due to activities at senior fairs and other community events and other management actions to increase awareness of the service among both our medical staff and the community, and to promote a favorable and consistent image in the service area. Dickinson Home Medical Equipment (DHME), which shares the location and management of DHH operations, also increased total revenue in 2004 as a result of increased community awareness and from efforts to establish agreements with extended care facilities to provide oxygen and related equipment to their clients. On a combined basis, these activities contributed to operating income in both 2004 and 2003, and they comprise slightly more than 2.9% of patient revenue of the Healthcare System.

The Upper Peninsula Sleep Center contributed 1.0% of net patient revenue and contributed to income of the Healthcare System in 2004. The DCHS unit is the only certified sleep center in the upper peninsula of Michigan, and was staffed by four certified diagnostic technologists in 2004.

Operations Improvement and Strategic Planning:

Management successfully carried out projects to implement the urology and orthopedic surgeon practices in 2005. The recruitment process was successful in providing necessary specialties of Pediatrics, Interventional Radiology and Internal Medicine/Nephrology in 2005 with practices to be established in 2006. The longer-term planning for primary care physician transition and retirements also received primary attention in 2005.

In 2004, physician recruitments were successful in key areas such as orthopedics and urology, the latter through a joint agreement with Bellin Health System in Green Bay, Wisconsin. The Board and management are seeking ways to increase market share for the Healthcare System and area physicians through ongoing joint planning with hospital systems that provide tertiary care in our primary service area. Our plans are to continue to recruit local specialty physicians to provide care at our facility as well as at tertiary care at our partners' facilities to our north and south and foster improved relationships with our primary care physician base. Continued successes from these plans are required to maintain or improve market share for primary care service lines in our service area.

In 2005, inpatient volumes and overall surgical volumes declined. While urology and orthopedics were a major factor, Management has taken further steps in conjunction with general surgeons to establish a "direct access" endoscopy program, which is intended to expedite the referral and insurance plan pre-certification process for improved patient service. A further investment of $250 thousand for scopes and scope light service also represents the Healthcare System's commitment to turning around the loss of market share in this service area.

A quality management program to improve inpatient case management and documentation, reduce lengths of stay and to avoid unnecessary consumption of hospital resources while maintaining good outcomes and patient satisfaction was begun in 2003. This continuous process is ongoing to ensure that proper documentation and coding standards are maintained to ensure proper reimbursement. Benchmarks were determined for length of stay and utilization of ancillaries using an external database. Overall cost per discharge has been brought under better control, and, to the extent our reimbursement is based upon a fixed rate per case, as with Medicare and Michigan Medicaid, net revenue has not been affected. The baseline Medicare case mix index prior to inception of the project was 1.15 compared to the full-year averages of 1.24 for 2005, 1.26 for 2004, and 1.19 for 2003. This resulted in estimated additional reimbursement of $1.0 million in 2005, $1.1 million in 2004, and $360 thousand in 2003. The average case mix declined slightly in 2005 compared to 2004 primarily due to fewer orthopedic surgery cases because of changes in independent physician practices. Management continues to monitor physician documentation, lengths of stay, resource consumption and care planning through nurse case managers and independent physician reviewers.

The Healthcare System is a member of the Upper Peninsula Healthcare Network (UPHCN) along with Marquette General Health System whose interests are aligned to help retain primary care in Dickinson County and meet the tertiary care needs of that market within Michigan. The Upper Peninsula Health Plan (UPHP) is owned by UPHCN members and has developed an alliance with Blue Cross Blue Shield of Michigan to provide a network of Michigan providers. The Healthcare System currently uses that network for its employee health plan.

In 2005, the Healthcare System also joined the PPL Network, a managed care network owned by BellinHealth in Green Bay, Wisconsin, to provide insurance plans and employers throughout northeastern Wisconsin a network of providers. Most of the primary care physicians on the medical staff of the Healthcare System are members of that network. In addition to participating as network providers, PPL Network physicians gain certain other management services and cost savings opportunities. Also, discussions are underway between the physicians, the Healthcare System and BellinHealth regarding cooperative efforts to combine and organize the primary care physicians.

The strategies to be part of both the UPHCN and the PPL Network are intended to enhance the market share of both the Healthcare System and local specialists by retaining primary care physician referrals while ensuring access to tertiary services. As these relationships and the networks develop in the local market, Management believes that cost savings opportunities for employers in our Michigan and Wisconsin service areas will be enhanced.

CURRENT BUDGET

As required by the Bylaws, Management prepares an annual budget for the approval of the Board of Trustees of the Healthcare System. The Current Budget as approved consists of an operating budget, a cash flow budget and a three-year capital budget together with any capital financing plans. The operating budget is presented in a format similar to the *Statement of Revenues, Expenses, and Changes in Net Assets* (except that the provision for bad debts is budgeted as an operating expense instead of as a reduction from revenue) and the cash flow budget is submitted in a format similar to the *Statement of Cash Flows*. Operating statistics that serve as assumptions underlying the financial amounts in the budgets are also budgeted. On a monthly basis, actual financial and statistical amounts are compared to budgeted amounts and variances are monitored and controlled.

CONDENSED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
ACTUAL COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2005 (in thousands)

	Actual	Budget	Variance*	
REVENUE AND (EXPENSES):				
Net patient service revenue	$ 65,837	$ 67,122	$ (1,285)	-1.9%
Other	541	548	(7)	-1.3%
Total operating revenue	66,378	67,670	(1,292)	-1.9%
Total operating expenses	63,789	65,772	1,983	3.0%
OPERATING INCOME	2,589	1,898	691	36.4%
Investment income, including unrealized gains and losses on investments and other items (net)	647	667	(20)	-3.0%
Interest expense	(2,210)	(2,290)	80	3.5%
Non-operating expenses in excess of revenue	(1,563)	(1,623)	60	3.7%
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,026	275	751	273.1%
OTHER CHANGE IN NET ASSETS:				
Capital contributions	197	244	(47)	-19.3%
Increase in net assets	1,223	519	$ 704	135.6%
NET ASSETS - BEGINNING OF YEAR	32,898	32,503		
NET ASSETS - END OF YEAR	$ 34,121	$ 33,022	$ 1,099	3.3%

*In the variance column of this table, a negative value (-) indicates an unfavorable variance to budget.

Net patient revenue was under budget by $1.3 million or 1.9%. The budget assumed a 4.1% increase in inpatient volumes from 2004, and an increase in hospital outpatient visits of approximately 5.2%, whereas inpatient volumes decreased 3.5% and outpatient volumes increased by 6.3%. Outpatient surgery visits decreased by 7%. Overall physician services revenue decreased 2.3% from 2004, but the 2005 budget assumed an increase of 14.3% above 2004. The principal causes for the physician services volume budget variances were in the Florence Medical Center where visits were 20.4% below budget, and the Kingsford Family Practice visits were 19.3% below budget.

Interest expense was under budget because the budget assumed an additional $2 million borrowing at mid-year for the fixed MRI equipment. Instead, existing funds designated for capital improvements were used for that item of equipment.

COMPONENTS OF OPERATING EXPENSES
ACTUAL COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2005 (in thousands)

	Actual	Budget	Variance*	
Salaries, wages and employee benefits	$ 37,983	$ 38,900	$ (917)	-2.4%
Supplies and pharmaceuticals	7,798	8,216	(418)	-5.1%
Professional fees and other purchased services	10,696	10,886	(190)	-1.7%
Depreciation and amortization	3,875	4,241	(366)	-8.6%
Provisions for bad debts	3,437	3,529	(92)	-2.6%
Total	$ 63,789	$ 65,772	$ (1,983)	-3.0%

*In the variance column of this table, a negative value (-) indicates a favorable variance to budget.

Employee compensation and benefit expense was under budget $917 thousand or 2.4%. Total full-time equivalent employees were 614.3 compared to the budget of 624.3 for a favorable variance of 1.6%. The budgeted staffing was higher based upon budgeted patient volumes. The average budgeted salary per FTE was favorable by 0.3% and 2.2% higher than 2004. Management anticipates the need to maintain employee compensation in line with market forces in the future given the need to continue to recruit and retained a highly skilled labor force.

Supplies and pharmaceuticals were under budget $418 thousand or 5.1%, primarily due to lower inpatient and outpatient surgery volumes than had been anticipate in the budget.

Professional fees and other purchased services were under budget $190 thousand or 1.7%, principally due to the discontinuance of the mobile MRI unit. In addition, expenses relating to professional and general liability claims deductibles contributed $42 thousand of the favorable variance.

The provision for bad debts was under budget $92 thousand or 2.6%. The provision is budgeted as a function of gross charges, which were $8.2 million or 5.5% under budget. The budget assumed 2.4% of gross charges for the provision, and the actual came in at the budgeted percentage compared to the prior year which was at 2.3%.

CAPITAL BUDGET AND FINANCIAL PLAN

The capital budget planned for 2005 capital expenditures was $11.1 million, and included were the costs to fully equip and complete construction of the two-story addition begun in 2004 to accommodate a fixed site MRI and to consolidate and enhance physical rehabilitation services. The new addition to the front of the DCMH facility was completed in September 2005. The cost incurred on the project through December 31, 2005 was $3.9 million and the final cost is projected at $4.1 million. The 2005 capital budget also reflects expenditures on the ongoing projects to replace the hospital information system and to continue to move toward filmless medical imaging.

The Hospital Revenue Bonds, Series 2004 that were issued in August 2004 in the amount of $5 million were for the hospital addition and other construction and equipment projects. Actual capital spending has totaled $3.6 million with $1.4 million available to be spent in 2006. There were no projects over budget.

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Dickinson County Healthcare System
Iron Mountain, Michigan

We have audited the accompanying balance sheets of **Dickinson County Healthcare System** (a component unit of Dickinson County) as of December 31, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Healthcare System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only **Dickinson County Healthcare System** and are not intended to present fairly the financial position of Dickinson County, Michigan, and do not reflect the results of its operations and cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Dickinson County Healthcare System** as of December 31, 2005 and 2004, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.

406 Main Ave., Ste. 3000 ▮ PO Box 2545 ▮ Fargo, North Dakota 58108-2545 ▮ Phone 701.239.8500 ▮ Fax 701.239.8600 ▮ EOE

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2006, on our consideration of **Dickinson County Healthcare System**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Eide Bailly LLP

Fargo, North Dakota
March 17, 2006

DICKINSON COUNTY HEALTHCARE SYSTEM
(A Component Unit of Dickinson County)
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,260,958**	$ 6,186,447
Temporary investments	**3,292,935**	3,008,435
Current portion of restricted assets	**1,214,440**	1,171,950
Receivables		
Patient, net of estimated uncollectibles of $2,265,000 in 2005 and $2,035,000 in 2004	**7,180,234**	6,969,137
Other	**177,229**	482,355
Supplies and other current assets	**2,092,315**	1,385,439
Total current assets	**15,218,111**	19,203,763
NONCURRENT CASH AND INVESTMENTS		
Internally designated for capital improvements	**10,384,440**	10,748,216
Other long-term investments	**1,159,936**	1,404,263
Restricted under indenture agreement for debt service	**2,361,138**	2,195,456
Restricted under indenture agreement for capital assets	**1,412,483**	3,220,328
Total assets limited as to use	**15,317,997**	17,568,263
CAPITAL ASSETS	**45,604,297**	41,635,173
DEFERRED FINANCING COSTS, net accumulated amortization of $164,420 in 2005 and $139,729 in 2004	**299,194**	323,885
Total assets	**$ 76,439,599**	$ 78,731,084

See Notes to Financial Statements

	2005	2004
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 1,214,435**	$ 1,195,998
Accounts payable		
Trade	**1,627,876**	1,790,886
Construction and capital assets	**84,789**	348,811
Estimated third-party payor settlements	**1,308,767**	3,597,957
Accrued expenses		
Salaries, wages, and related liabilities	**1,478,174**	1,214,030
Compensated absences	**2,433,509**	2,446,690
Other accrued liabilities	**442,620**	460,437
Interest	**289,435**	296,950
Total current liabilities	**8,879,605**	11,351,759
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	**32,384,321**	33,342,948
Reserve for loss on general and professional liabilities claims	**890,000**	965,000
Other	**164,820**	173,570
Total long-term liabilities	**33,439,141**	34,481,518
Total liabilities	**42,318,746**	45,833,277
NET ASSETS		
Invested in capital assets, net of related debt	**12,005,541**	7,096,227
Restricted - expendable for debt service	**3,410,758**	3,193,836
Restricted - expendable for capital assets	**1,412,483**	3,220,328
Unrestricted	**17,292,071**	19,387,416
Total net assets	**34,120,853**	32,897,807
Total liabilities and net assets	**$ 76,439,599**	$ 78,731,084

DICKINSON COUNTY HEALTHCARE SYSTEM

(A Component Unit of Dickinson County)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING REVENUE		
Net patient service revenue, net of provision for bad debts of $3,437,405 in 2005 and $2,982,798 in 2004	**$ 62,400,012**	$ 59,954,291
Other revenue	**540,924**	547,336
Total operating revenue	**62,940,936**	60,501,627
OPERATING EXPENSES		
Salaries and wages	**29,117,918**	28,159,625
Employee benefits	**8,864,949**	9,165,630
Supplies and pharmaceuticals	**7,797,854**	7,787,076
Medical and other professional fees	**5,265,746**	5,285,582
Purchased services and other	**5,430,299**	5,004,824
Depreciation and amortization	**3,875,353**	3,413,627
Total operating expenses	**60,352,119**	58,816,364
OPERATING INCOME	**2,588,817**	1,685,263
NONOPERATING REVENUES (EXPENSES)		
Unrestricted general contributions and other	**52,934**	125,453
Interest expense	**(2,210,218)**	(2,150,694)
Loss on disposal of capital assets	**(136,490)**	(23,628)
Investment income	**910,721**	729,375
Change in unrealized gains and losses on investments	**(179,718)**	(235,451)
Total nonoperating revenues (expenses)	**(1,562,771)**	(1,554,945)
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS	**1,026,046**	130,318
CAPITAL CONTRIBUTIONS	**197,000**	107,500
INCREASE IN NET ASSETS	**1,223,046**	237,818
NET ASSETS, BEGINNING OF YEAR	**32,897,807**	32,659,989
NET ASSETS, END OF YEAR	**$ 34,120,853**	$ 32,897,807

See Notes to Financial Statements

DICKINSON COUNTY HEALTHCARE SYSTEM
(A Component Unit of Dickinson County)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING ACTIVITIES		
Receipts from and on behalf of patients	**$ 62,188,915**	$ 61,655,907
Receipts (payments) with third-party payors for settlements	**(2,289,190)**	3,183,071
Payments to suppliers and contractors	**(28,379,735)**	(26,645,751)
Payments to employees	**(28,853,774)**	(27,785,801)
Other receipts and payments	**846,050**	223,484
NET CASH FROM OPERATING ACTIVITIES	**3,512,266**	10,630,910
NONCAPITAL FINANCING ACTIVITIES		
Unrestricted general contributions and other	**52,934**	125,453
CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES		
Purchase of capital assets, net	**(8,088,159)**	(5,326,470)
Repayment of long-term debt	**(1,204,006)**	(1,121,128)
Interest paid, including capitalized interest	**(2,100,703)**	(1,961,903)
Capital contributions	**197,000**	107,500
Proceeds from the sale of capital assets	**59,651**	22,585
Proceeds from issuance of Series 2004 bonds	-	5,000,000
Payment of deferred financing costs	-	(46,246)
NET CASH USED FOR CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES	**(11,136,217)**	(3,325,662)
INVESTING ACTIVITIES		
Purchases of investments	**(7,964,752)**	(5,458,387)
Proceeds from sales and maturities of investments	**9,711,410**	2,221,072
Investment income	**901,971**	720,625
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	**2,648,629**	(2,516,690)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(4,922,388)**	4,914,011
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**6,202,282**	1,288,271
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,279,894**	$ 6,202,282
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and cash equivalents in current assets	**$ 1,260,958**	$ 6,186,447
Cash and cash equivalents in other long-term investments	**18,936**	15,835
Total cash and cash equivalents	**$ 1,279,894**	$ 6,202,282

(continued on next page)

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	**$ 2,588,817**	$ 1,685,263
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	**3,875,353**	3,413,627
Provision for bad debts	**3,437,405**	2,982,798
Changes in assets and liabilities		
Patient receivables, net of provision for bad debts	**(3,648,502)**	(1,281,182)
Other receivables	**305,126**	(323,852)
Supplies and other current assets	**(751,879)**	297,078
Accounts payable - trade	**(163,010)**	188,186
Estimated third-party payor settlements	**(2,289,190)**	3,183,071
Accrued expenses	**233,146**	710,921
Reserve for loss on general and professional liabilities claims	**(75,000)**	(225,000)
NET CASH FROM OPERATING ACTIVITIES	**$ 3,512,266**	$ 10,630,910

SUPPLEMENTAL DISCLOSURE OF CASHFLOW INFORMATION

During 2005, the Healthcare System incurred depreciation on rental equipment totaling $45,003. The rental equipment is included in supplies and other current assets on the accompanying financial statements.

The Healthcare System capitalized interest expense totaling $171,477 and $98,815 during 2005 and 2004.

The Healthcare System recognized $8,750 of the deferred gain associated with the forward purchase contract (Note 15) during 2005 and 2004. These amounts are included in investment income on the accompanying financial statements.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Dickinson County Healthcare System (Healthcare System) was formed as a county public Healthcare System in 1947. It was created to operate, control and manage all matters concerning Michigan's Dickinson County healthcare function. In 1990, the county public Healthcare System was reorganized as a health facilities corporation under Act 230 and assumed all rights, privileges, immunities and franchise of the predecessor county public Healthcare System. The Healthcare System provides acute, ambulatory, home health and certain physician services to the residents of its service area. The Board of County Commissioners approves the members of the Board of Trustees of the Healthcare System. The Healthcare System may not issue long-term debt without the County's approval. The Healthcare System is considered to be a component unit of Dickinson County.

The current Healthcare System facility was completed in 1996 on land leased from Dickinson County (County) under a one hundred year lease. Under provisions of the lease, title and ownership of all buildings and improvements constructed on the site are in the name of County. The lease places certain requirements and restrictions on the Healthcare System.

Dickinson County Healthcare System is accounted for as an enterprise fund of the County. The Healthcare System is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code.

These financial statements include only the activity of the Healthcare System.

Enterprise Fund Accounting

The Healthcare System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Healthcare System has adopted the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The financial statements have been presented in conformity with generally accepted accounting principles as promulgated by GASB and as recommended in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments, unless otherwise designated or restricted, with an original maturity of three months or less when acquired.

(continued on next page)

Temporary Investments

Temporary investments include investments with an average maturity of three to twelve months, excluding internally designated and restricted cash and investments and other long-term investments. Temporary investments are recorded at fair value.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Investments and Investment Income

Investments in debt and equity securities are reported at fair value. Fair value is determined based on quoted market prices, if available, or estimated fair value using quoted market prices for similar securities. Interest, dividends, gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating revenues when earned.

Internally designated funds consist primarily of U.S. Treasury securities and money market funds. Funds restricted under indenture agreement for debt service consists of a debt service reserve fund and principal and interest funds and are invested primarily in U.S. Treasury securities with maturities that match planned expenditures. Funds restricted under an indenture agreement for capital assets are invested primarily in money market and U.S. Treasury securities.

Funds that are available for obligations classified as current liabilities are reported in current assets.

Capital Assets

Capital asset acquisitions in excess of $1,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	5-20 years
Buildings and improvements	5-40 years
Equipment	3-20 years

(continued on next page)

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Healthcare System capitalized $171,477 and $98,815 of interest cost in 2005 and 2004.

Deferred Financing Costs

Deferred financing costs are amortized over the period the related obligation is outstanding using the bonds-outstanding method.

Compensated Absences

The Healthcare System has a paid-time-off (PTO) program that allows employees to earn vacation and catastrophic leave (CAT) benefits based, in part, on length of service. Employees may accumulate PTO up to a specified maximum. Employees are paid for accumulated PTO if employment is terminated. The PTO program also allows for 25% of accumulated CAT days to be paid out at retirement up to a maximum of 120 hours. CAT days not paid out are applied to years of service for pension credit calculations.

Grants and Contributions

From time to time, the Healthcare System receives grants and contributions. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Restricted Resources

When the Healthcare System has both restricted and unrestricted resources available to finance a particular program, it is the Healthcare System's policy to use restricted resources before unrestricted resources.

Net Assets

Net assets are presented in the following three components

Net Assets Invested in Capital Assets, Net of Related Debt - Invested in capital assets net of related debt consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted Expendable Net Assets - Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditor, grantors, or contributors external to the Healthcare System, including amounts deposited with trustees as required by bond indenture agreements.

Unrestricted Net Assets - Unrestricted net assets are remaining net assets that do not meet the definition of "Invested in Capital Assets Net of Related Debt" or "Restricted."

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Net Patient Service Revenue

The Healthcare System has agreements with third-party payors that provide for payments to the Healthcare System at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating Revenues and Expenses

The Healthcare System's statements of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Healthcare System's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

To fulfill its mission of community service, the Healthcare System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Healthcare System does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue (Note 3).

Advertising Costs

The Healthcare System expenses advertising costs as incurred.

Risk Management

The Healthcare System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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NOTE 2 - CHARITY CARE

The Healthcare System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were $1,174,837 and $881,315 for the years ended December 31, 2005 and 2004.

NOTE 3 - NET PATIENT SERVICE REVENUE

The Healthcare System has agreements with third-party payors that provide for payments to the Healthcare System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The Healthcare System's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended December 31, 2001. The Healthcare System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Healthcare System.

Medicaid. Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Defined capital costs are paid based on a cost reimbursement methodology for inpatient services. Outpatient services related to Medicaid program beneficiaries are reimbursed on a fee for service basis. The Healthcare System's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through December 31, 1998.

Blue Cross. Inpatient and outpatient services rendered to Blue Cross subscribers are paid on a cost related methodology with final settlement determined after submission of annual cost reports by the Healthcare System and are subject to audits thereof by Blue Cross. The Healthcare System's Blue Cross cost reports have been settled by Blue Cross through December 31, 2000.

The Healthcare System has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Healthcare System under these agreements includes prospectively determined rates per discharge and discounts from established charges.

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Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended December 31, 2005 and 2004 is as follows:

	2005	2004
Gross patient service revenue	**$ 141,917,588**	$ 132,314,546
Less: charity care	**(1,174,837)**	(881,315)
Total patient service revenue	**140,742,751**	131,433,231
Contractual adjustments		
Medicare	**(38,141,960)**	(33,326,973)
Medicaid	**(8,959,222)**	(9,095,741)
Blue Cross	**(20,668,040)**	(19,268,109)
Other	**(7,136,112)**	(6,805,319)
	(74,905,334)	(68,496,142)
Provision for bad debts	**(3,437,405)**	(2,982,798)
Total contractual adjustments and provision for bad debts	**(78,342,739)**	(71,478,940)
Net patient service revenue	**$ 62,400,012**	$ 59,954,291

NOTE 4 - INVESTMENTS AND INVESTMENT INCOME

The Healthcare System's investments are reported at fair value. At December 31, 2005 and 2004, the Healthcare System's investments consisted of the following:

	Maturities	2005	2004
Cash and cash equivalents	Daily	**$ 1,279,894**	$ 6,202,282
Money market funds	Daily	**4,786,698**	3,645,192
Commercial Paper	4-6 months	**3,189,960**	3,364,013
Federal Home Loan Mortgage Corporation	2-10 years	**4,448,144**	4,634,351
Federal National Mortgage Association	2.2-10 years	**3,782,802**	3,646,685
Federal Home Loan Bank	2.1-10 years	**2,452,434**	4,560,959
Federal Farm Credit Bank	2.4-10 years	**446,588**	650,955
US Treasury Note	10 years	**425,068**	1,203,779
Fannie Mae	25 months	**274,742**	-
Federal National Mortgage Corporation	N/A	**-**	26,879
Carrying value of investments		**21,086,330**	27,935,095
Less amount shown as current		**(5,768,333)**	(10,366,832)
Noncurrent cash and investments		**$ 15,317,997**	$ 17,568,263

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Interest Rate Risk

The Healthcare System's investment policy contains a provision that limits the investment maturities of commercial paper to 270 days as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy does not contain a provision that limits other types of investment maturities.

Credit Risk

Michigan Compiled Laws, Section 129.91, authorizes the Healthcare System to deposit and invest in accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Healthcare System is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Healthcare System complies with State Statutes with regard to credit risk. As of December 31, 2005, the Healthcare System's investment in Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, US Treasury Notes, and Federal Farm Credit Bank are rated AAA by Moody's Investors Service.

Concentration of Credit Risk

The Healthcare System currently does not place a limit on the amount it may invest with any one issuer. More than 5 percent of the Healthcare System's investments are in the following investments as of December 31, 2005:

	Percentage
Commercial Paper	15.1%
Money market funds	22.7%
Federal Home Loan Mortgage Corporation	21.1%
Federal National Mortgage Association	17.9%
Federal Home Loan Bank	11.6%

Investment Income

Investment income and gains and losses on cash equivalents, and investments consist of the following for the years ended December 31, 2005 and 2004:

	2005	2004
Interest income and realized gains and losses	**$ 888,429**	$ 529,791
Interest income on proceeds of borrowed funds	**22,292**	199,584
Total investment income	**$ 910,721**	$ 729,375
Change in unrealized gains and losses on investments	**$ (179,718)**	$ (235,451)

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NOTE 5 - DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Healthcare System's deposits may not be returned to it. The Healthcare System does not have a deposit policy for custodial credit risk. Healthcare System had bank balances at December 31, 2005 and 2004 as follows:

	2005	2004
Insured (FDIC)	**$ 119,036**	$ 115,924
Collateralized by corporate securities held by the pledging institution in the Healthcare System's name	**1,000,000**	1,000,000
Uncollateralized	**671,441**	6,089,470
Total	**$ 1,790,477**	$ 7,205,394
Carrying value	**$ 1,279,894**	$ 6,202,282

The carrying value of the deposits shown above is included in the Healthcare System's balance sheets as follows:

Cash and cash equivalents	**$ 1,279,894**	$ 6,202,282

The carrying value of investments in Note 4 is included in the Healthcare System's balance sheet as follows:

	2005	2004
Cash and cash equivalents	**$ 1,260,958**	$ 6,186,447
Temporary investments	**3,292,935**	3,008,435
Restricted assets - current portion (Note 8)	**1,214,440**	1,171,950
Internally designated for capital improvements	**10,384,440**	10,748,216
Other long-term investments	**1,159,936**	1,404,263
Restricted under indenture agreement for debt service (Note 8)	**2,361,138**	2,195,456
Restricted under indenture agreement for capital assets	**1,412,483**	3,220,328
	$ 21,086,330	$ 27,935,095

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NOTE 6 - CAPITAL ASSETS

Capital assets additions, transfers, retirements, and balances for the year ended December 31, 2005 are as follows:

	Balance December 31, 2004	Additions	Transfers and Retirements	**Balance December 31, 2005**
Capital assets not being depreciated				
Land	$ 1,643,231	$ -	$ -	**$ 1,643,231**
Construction in progress	3,205,926	6,311,131	(7,723,937)	**1,793,120**
Total capital assets, not being depreciated	$ 4,849,157	$ 6,311,131	$ (7,723,937)	**$ 3,436,351**
Capital assets being depreciated				
Land improvements	$ 938,024	$ 6,750	$ -	**$ 944,774**
Buildings and improvements	35,027,075	-	4,358,514	**39,385,589**
Equipment	26,179,359	1,732,523	2,227,591	**30,139,473**
Total capital assets being depreciated	62,144,458	1,739,273	6,586,105	**70,469,836**
Less accumulated depreciation for				
Land improvements	(169,642)	(45,052)	-	**(214,694)**
Buildings and improvements	(9,421,031)	(1,270,185)	-	**(10,691,216)**
Equipment	(15,767,769)	(2,515,113)	886,902	**(17,395,980)**
Total accumulated depreciation	(25,358,442)	(3,830,350)	886,902	**(28,301,890)**
Net capital assets being depreciated	$ 36,786,016	$ (2,091,077)	$ 7,473,007	**$ 42,167,946**
Capital assets, net	$ 41,635,173	$ 4,220,054	$ (250,930)	**$ 45,604,297**

Construction in progress at December 31, 2005 represents costs related to building and renovation projects and equipment purchased and not placed into service at December 31, 2005. The total estimated cost to complete the projects is $3,213,000, which will be funded with proceeds from the Hospital Revenue bonds, Series 2004, (Notes 5 and 8) and internally designated funds.

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Capital asset additions, transfers, retirements, and balances for the year ended December 31, 2004 are as follows:

	Balance December 31, 2003	Additions	Transfers and Retirements	Balance December 31, 2004
Capital assets not being depreciated				
Land	$ 1,643,231	$ -	$ -	$ 1,643,231
Construction in progress	2,046,193	4,117,304	(2,957,571)	3,205,926
Total capital assets, not being depreciated	$ 3,689,424	$ 4,117,304	$ (2,957,571)	$ 4,849,157
Capital assets being depreciated				
Land improvements	$ 863,024	$ 75,000	$ -	$ 938,024
Buildings	34,566,102	460,973	-	35,027,075
Equipment	22,414,968	4,078,834	(314,443)	26,179,359
Total capital assets being depreciated	57,844,094	4,614,807	(314,443)	62,144,458
Less accumulated depreciation for				
Land improvements	(106,141)	(63,501)	-	(169,642)
Buildings	(8,192,816)	(1,228,215)	-	(9,421,031)
Equipment	(13,877,794)	(2,150,389)	260,414	(15,767,769)
Total accumulated depreciation	(22,176,751)	(3,442,105)	260,414	(25,358,442)
Net capital assets being depreciated	$ 35,667,343	$ 1,172,702	$ (54,029)	$ 36,786,016
Capital assets, net	$ 39,356,767	$ 5,290,006	$ (3,011,600)	$ 41,635,173

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NOTE 7 - OPERATING LEASES

The Healthcare System leases certain medical and other equipment and office space under operating leases having terms of more than one year. Total operating lease expense in December 31, 2005 and 2004 for all leases was $486,128 and $460,595.

Minimum future lease payments for these operating leases are as follows:

Year Ending December 31,	Amount
2006	$ 229,530
2007	71,628
2008	21,928
2009	7,192
Total minimum lease payments	$ 330,278

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of:

	Balance December 31, 2004	Additions	Reductions	**Balance December 31, 2005**	**Amounts Due Within One Year**
Hospital Revenue Bonds, Series 2004	$ 4,969,340	$ -	$ (95,520)	**$ 4,873,820**	**$ 101,070**
Hospital Revenue and Refunding Bonds, Series 1999	31,470,000	-	(875,000)	**30,595,000**	**925,000**
Original issue discount	(256,573)	-	21,022	**(235,551)**	-
Equipment note payable	1,263,414	-	(177,422)	**1,085,992**	**188,365**
Capitalized lease obligation	56,064	-	(56,064)	-	-
Unamortized loss on defeasance of Series 1994 Bonds	(2,963,299)	-	242,794	**(2,720,505)**	-
	$ 34,538,946	$ -	$ (940,190)	**$ 33,598,756**	**$ 1,214,435**

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	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2004	$ -	$ 5,000,000	$ (30,660)	$ 4,969,340	$ 95,521
Hospital Revenue and Refunding Bonds, Series 1999	$ 32,340,000	-	$ (870,000)	$ 31,470,000	$ 875,000
Original issue discount	(278,183)	-	21,610	(256,573)	-
Equipment notes payable	1,435,826	-	(172,412)	1,263,414	177,422
Capitalized lease obligations	104,120	-	(48,056)	56,064	48,055
Unamortized loss on defeasance of Series 1994 Bonds	(3,212,843)	-	249,544	(2,963,299)	-
	$ 30,388,920	$ 5,000,000	$ (849,974)	$ 34,538,946	$ 1,195,998

Long-Term Debt

The terms and due dates of the Healthcare System's long-term debt, including capital lease obligations, at December 31, 2005 and 2004 are as follows:

- 5.66% Dickinson County Healthcare System, County of Dickinson, State of Michigan, Hospital Revenue Bonds, Series 2004 (Series 2004 Bonds) - due in monthly installments of $31,194 including interest, to August 2029, secured by certain equipment. (1)
- 5.25% to 5.80% Dickinson County Healthcare System, County of Dickinson, State of Michigan, Hospital Revenue and Refunding Bonds, Series 1999 (Series 1999 Bonds) - Due in varying annual installments to November 2024, secured by a pledge of net revenues, investment income, and bond funds held under the indenture agreement (Note 4). (1)
- Original Issue Discount - Associated with the Series 1999 Bonds issuance.
- Equipment Note Payable - Megavoltage Radiation Therapy (MRT) equipment – During 2000 the Healthcare System entered into a 6%, 10-year note payable with Marquette General Hospital (an unrelated organization) for the purchase of MRT equipment. The note payable is due in monthly installments of $20,700 to January 2011, and is secured by the MRT equipment
- Capital Lease Obligation – imputed interest rate of 0%, secured by leased equipment.
- Unamortized Loss on Defeasance of Series 1994 Bonds – During 1999, the Healthcare System defeased the Series 1994 Revenue Bonds by issuing the Series 1999 Bonds. A portion of the Series 1999 Bond proceeds totaling $32,810,599 was placed in an irrevocable trust to provide for all future debt service payments on the 1994 bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in these financial statements. The resulting loss on defeasance of approximately $4,480,000 is being amortized using the straight-line method, over the life of the Series 1999 Bonds.

(1)The Series 2004 Bonds and Series 1999 Bonds loan agreements places limits on the incurrence of additional borrowings and requires the Healthcare System satisfy certain measures of financial performance. The Series 1999 Bonds loan agreement also requires the Healthcare System maintain certain deposits with a trustee. Such deposits are shown as restricted for this purpose in the balance sheets (Note 5).

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Scheduled principal and interest payments on long-term debt are as follows:

Year Ending December 31,	Long-Term Debt Principal	Interest	Total
2006	$ 1,214,435	$ 2,069,942	$ 3,284,377
2007	1,281,924	2,003,889	3,285,813
2008	1,355,471	1,931,717	3,287,188
2009	1,475,139	1,855,399	3,330,538
2010	1,540,998	1,772,391	3,313,389
2011-2015	7,673,322	7,654,639	15,327,961
2016-2020	10,098,282	5,220,186	15,318,468
2021-2025	10,683,943	1,941,459	12,625,402
2026-2030	1,231,298	134,405	1,365,703
	36,554,812	$ 24,584,027	$ 61,138,839
Less unamortized bond discount	(235,551)		
Less unamortized loss on defeasance	(2,720,505)		
Total	$ 33,598,756		

NOTE 9 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Healthcare System is the administrator of a single-employer defined benefit noncontributory pension plan (Plan) covering substantially all of its employees who have met the Plan's eligibility requirements. The Plan was established in 1965 and most recently amended January 1, 2004. The most recent actuarial valuation was made as of January 1, 2006. Based on actuarial information, the Healthcare System's estimated payroll for employees covered by the Plan for the years ended December 31, 2005 and 2004 was approximately $27,447,000 and $25,928,000. The Healthcare System's total actual payroll for the years ended December 31, 2005 and 2004 was approximately $29,118,000 and $28,160,000.

Current membership in the Plan consists of the following at December 31:

	2005	2004
Retirees and beneficiaries currently receiving benefits	**177**	177
Vested terminated members	**132**	127
Active and inactive employees		
Fully vested	**511**	497
Nonvested	**153**	168
	973	969

All employees of the Healthcare System are eligible to participate in the Plan following the completion of at least one year of service and a minimum of 1,000 hours. Benefits vest after five years of service and a minimum of 1,000 hours per year.

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Normal retirement age is 65 with the completion of five or more years of service. Normal retirement pays a monthly pension for life, equal to 1.25% of average monthly compensation per year of credited service plus 0.65% of average monthly compensation in excess of covered compensation per year of service up to a maximum of 35 years, with a $50 minimum. Employees may elect an early retirement on or after age 60 which pays a monthly pension for life computed in the same manner as a normal retirement pension, but based on service and earnings to date of retirement, and actuarially reduced to reflect the early commencement date.

Active employees with 15 or more years of service and who have attained age 50, who become disabled are eligible for a disability pension, provided they qualify for Social Security disability. A disability pension is computed in the same manner as a normal retirement pension, but based on service and earnings to the date of disability.

If a vested employee dies, a death benefit is paid to the surviving spouse. Fifty percent of the deceased employee's benefit accrued to the date of death, is paid immediately or at the date the employee would have been age 60, whichever is later.

Funding Policy

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The required contributions for the years ended December 31, 2005 and 2004 were 5.54% and 5.04%, of annual covered payroll.

Annual Pension Cost

For 2005, 2004, 2003, 2002, and 2001, the Healthcare System's annual pension cost was equal to the Healthcare System's required and actual contributions. The required contribution was determined as part of the January 1, 2005, 2004, 2003, 2002, and 2001, actuarial valuations using the projected unit credit cost actuarial funding method. The actuarial assumptions for fiscal 2005 included (a) 8.5% investment rate of return and (b) salary increases including merit and seniority increases ranging from 0.16% to 3.84% per year, plus wage inflation of 5.0%. The assumptions regarding benefits are that no changes will occur on a postretirement basis.

The Healthcare System's annual pension cost, and required and actual contributions for the years ended December 31, 2005, 2004, 2003, 2002, and 2001 were approximately $1,437,000, $1,267,000, $1,048,000 $873,000 and $847,000. The net pension obligation for the years ended December 31, 2005, 2004, 2003, 2002, and 2001 was zero.

A separately issued financial report of the Dickinson County Healthcare System Retirement Plan is available which includes financial statements and required supplementary information for the Plan.

NOTE 10 - DEFERRED COMPENSATION PLAN

The Healthcare System offers its employees a deferred compensation plan (DC Plan) created in accordance with the Internal Revenue Code, Section 457 and administered by Lincoln Retirement Services Company, LLC (Lincoln). The DC Plan is available to all employees and permits them to defer a portion of their current earnings from income taxes until withdrawal in retirement, upon death, withdrawal upon termination at the employee's option, or withdrawal due to an unforeseeable emergency.

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The assets of the DC Plan are held in trust for the exclusive benefit of participants and beneficiaries under the DC Plan, in accordance with Internal Revenue Code, Section 457 (g). Wilmington Trust Company, a Lincoln Affiliate, is the Trustee. Participants or surviving beneficiaries under the DC Plan may allocate their fund balances among independently managed mutual funds Lincoln's Alliance Program and a fixed annuity provided by Lincoln.

In accordance with the provisions of GASB Statement No. 32, the DC Plan assets and activities are not reflected in the financial statements of the Healthcare System.

NOTE 11 - GENERAL AND PROFESSIONAL LIABILITY INSURANCE

The Healthcare System carries general and professional liability insurance through MHA Insurance Company. General and professional liability claims are insured on a claims-made policy covering claims in excess of $50,000 per occurrence and $150,000 in the aggregate.

The Healthcare System has exposure to deductibles for professional liability claims and a liability for such claims has been established based upon an actuarial determination of expected losses on an occurrence basis.

The Healthcare System's estimate of general and professional liability includes a provision for known claims and for unreported claims and incidents. The Healthcare System's liability for unreported and known claims and incidents has been recorded at the total of anticipated future payments, and is discounted at present value factors ranging from .850 to .980 for 2005 and .834 to .980 for 2004. Amounts included as expense for general and professional liability for the years ended December 31, 2005 and 2004 were approximately $595,000 and $606,000. The reserve for loss on professional liability claims at December 31, 2005 and 2004 and activity for the years then ended is as follows:

Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
$ 1,190,000	$ -	$ (225,000)	$ 965,000	$ -	$ (75,000)	$ 890,000

NOTE 12 - LITIGATION, CLAIMS, AND DISPUTES

The Healthcare System is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Healthcare System.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the Healthcare System is in substantial compliance with current laws and regulations.

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NOTE 13 - CONCENTRATIONS

The Healthcare System grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2005 and 2004 was as follows:

	2005	2004
Medicare	**37%**	37%
Blue Cross	**17%**	16%
Medicaid	**6%**	8%
Commercial insurance and other	**21%**	22%
Self pay	**19%**	17%
	100%	100%

The Healthcare System is subject to collective bargaining agreements for approximately 64 percent of its labor force. These agreements are negotiated on a tri-annual basis. The agreement for the Michigan Nurses Association will expire in May of 2008. The agreement for the American Federation of State, County, and Municipal Employees (AFSCME) will expire in December of 2006.

NOTE 14 - DICKINSON COUNTY HOSPITAL FOUNDATION

Dickinson County Hospital Foundation (Foundation) is organized to raise funds for the benefit of the Healthcare System and the community. The Foundation is deemed not to be a component unit of the Healthcare System as defined in GASB 39, *Determining Whether Certain Organizations Are Component Units,* as the economic resources received or held by the Foundation is not considered significant to the Healthcare System. As the Foundation is not considered a component unit, the Foundation's financial statements are not included in these financial statements. At December 31, 2005 and 2004, the Foundation' assets consisted primarily of cash and short-term investments and totaled approximately $345,000 and $447,000. During 2005 and 2004, the Foundation transferred funds totaling $197,000 and $100,000 to the Healthcare System. These amounts are included in capital contributions on the accompanying financial statements.

NOTE 15 - FORWARD PURCHASE CONTRACT/DEFERRED GAIN

A forward purchase contract was entered into in 1999 by the Healthcare System relating to certain trustee held funds associated with the Series 1999 bonds. The contract provides a fixed rate of return of 5.775% on the Debt Service Fund and the Reserve Fund investments (Note 4).

The contract has a maturity date of November 2024, a notional value of approximately $2,853,000 and $2,864,000 as of December 31, 2005 and 2004, respectively, and an estimated fair value of approximately $392,000 and $330,000 at December 31, 2005 and 2004, respectively.

Upon inception of the agreement, the Healthcare System received a premium of $220,000 from the counter party, which is being amortized over the life of the debt, and is recorded as a deferred gain.

The Healthcare System believes its credit risk is minimal on the transaction.

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Dickinson County Healthcare System

We have audited the financial statements of Dickinson County Healthcare System (the "Healthcare System") (a component unit of Dickinson County) as of and for the year ended December 31, 2005, and have issued our report thereon dated March 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Healthcare System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might by material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Healthcare System in a separate letter dated March 17, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Healthcare System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management of the Healthcare System and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
March 17, 2006

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN

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EideBailly

CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
Dickinson County Healthcare System Retirement Plan
Iron Mountain, Michigan

We have audited the accompanying statements of plan net assets of the **Dickinson County Healthcare System Retirement Plan** (the Plan) at December 31, 2005 and 2004, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan at December 31, 2005 and 2004, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary schedules on pages 9 through 11 are presented for purposes of additional analysis. The required supplementary schedules are the responsibility of the Plan's administrator and, insofar as they relate to the years ended December 31, 2005 and 2004, have been subjected to the auditing procedures applied in the audit of the basic financial statements for 2005 and 2004 and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Fargo, North Dakota
April 6, 2006

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DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN
STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 2005 AND 2004

	2005	2004
ASSETS		
Cash in money market	**$ 450,838**	$ 605,757
Investments, at fair value		
Fixed income mutual funds	**6,824,402**	5,910,407
Equity mutual funds	**12,735,868**	11,783,520
Total investments	**19,560,270**	17,693,927
Accrued interest receivable	**41,500**	9,636
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$ 20,052,608**	$ 18,309,320

See Notes to Financial Statements

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDING DECEMBER 31, 2005 AND 2004

	2005	2004
ADDITIONS		
Net investment income	**$ 1,261,627**	$ 1,711,741
Employer contributions	**1,437,468**	1,266,049
Total additions	**2,699,095**	2,977,790
DEDUCTIONS		
Benefit payments	**928,181**	939,329
Administrative expenses	**27,626**	46,595
Total deductions	**955,807**	985,924
NET INCREASE	**1,743,288**	1,991,866
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	**18,309,320**	16,317,454
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	**$ 20,052,608**	$ 18,309,320

See Notes to Financial Statements

NOTE 1 - DESCRIPTION OF THE PLAN

The Dickinson County Healthcare System Retirement Plan (the Plan) is a single-employer pension plan for certain employees of the Dickinson County Healthcare System (the Healthcare System). The following brief description is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is a defined benefit, noncontributory pension plan established to provide pension, death and disability benefits. All employees of the Healthcare System are eligible to participate in the Plan following the completion of at least one year and a minimum of 1,000 hours. Benefits vest after five years of service and a minimum of 1,000 hours per year.

Plan Benefits

Normal retirement is age 65 with the completion of five or more years of service. Normal retirement pays a monthly pension for life, equal to 1.25% of average monthly compensation per year of credited service plus 0.65% of average monthly compensation in excess of covered compensation per year of service up to a maximum of 35 years, with a $50 minimum. Employees may elect an early retirement on or after age 60 which pays a monthly pension for life computed in the same manner as a normal retirement pension, but based on service and earnings to date of retirement, and actuarially reduced to reflect the early commencement date.

Average monthly compensation used to compute pension benefits is the average total compensation for the employee's highest consecutive sixty months. Covered compensation is the average of the maximum compensation taxed by social security for the 35 years ending at social security's normal retirement age.

Pension benefits include deferred retirement benefits whereby an employee may terminate his or her employment with the Healthcare System after completing 5 or more years of service, but before reaching normal retirement age of 65. The employee is entitled to all pension benefits upon reaching the age of 65.

Pension provisions include pre-retirement death and disability benefits. Surviving spouses of vested participants are entitled to receive a monthly pension equal to 50% of the deceased participant's benefit accrued to the date of death, payable immediately or at the date the participant would have been age 60, whichever is later. A participant who becomes totally and permanently disabled, prior to termination of employment, after attaining age 50 and completing at least 15 years of service is entitled to receive a monthly pension computed in the same manner as a normal retirement pension, but based on service and earnings to the date of disability.

Plan Membership

Plan membership consisted of the following at December 31:

	2005	2004
Retirees and beneficiaries receiving benefits	**177**	177
Terminated plan members entitled to, but not yet receiving benefits	**132**	127
Active plan members	**664**	665
Total	**973**	969

(continued on next page)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting. Employer contributions are recognized as revenue in the year that they are due.

Investment Valuation and Income Recognition

Investments are reported at fair value based on quoted market prices. Investment income is recognized as earned by the Plan. Purchases and sales of securities are recorded on a trade date basis (see Note 3).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

NOTE 3 - INVESTMENTS

All investments are valued at fair market value as of December 31, 2005 and 2004. All investments of the Plan are considered to be Category 3 investments under Governmental Accounting Standards Board (GASB) Statement No. 3. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the name of the Plan.

At December 31, 2005 and 2004, investments held, which exceeded 5% of net assets held in trust for benefits, were as follows:

	2005	2004
Intermediate Bond Fund American shares beneficial interest	**$ 2,284,198**	$ 2,254,882
MFS Research Bond Fund - Class A	**2,346,241**	1,916,315
Morgan Stanley US Government Securities Fund - Class A	**2,193,963**	1,739,209
American Funds - Europacific Growth Fund - Class A	**1,401,952**	1,517,518
American Funds - Growth Fund of America - Class A	**1,781,156**	1,559,303
Lord Abbett - Mid-Cap Value Fund - Class A	**1,088,155**	1,006,032
MFS Massachusetts Investors Growth Stock Fund - Class A	**1,401,812**	1,345,081
Templeton World Fund - Class A	**1,548,876**	1,387,072
Van Kampen Amer Cap Emerging Growth Fund - Class A	**1,341,633**	1,245,618
Van Kampen Amer Cap Common Stock Fund - Class A	**2,697,243**	2,588,664

(continued on next page)

NOTE 4 - FUNDING STATUS AND PROGRESS

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to (i) help users assess the funding status of the Plan on a going-concern basis, (ii) assess the progress made in accumulating sufficient assets to pay benefits when due and (iii) allow for comparisons among employers. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

The pension benefit obligation was determined as part of actuarial valuations of the Plan as of January 1, 2006 and 2005. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 5.0% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from .16% to 3.84% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will not increase after retirement.

As of December 31, 2005 and 2004, pension benefit obligations and net assets were as follows:

	January 1,	
	2006	2005
Pension benefit obligation		
Retirees and beneficiaries currently receiving benefits	**$ 7,366,279**	$ 7,095,856
Terminated employees not yet receiving benefits	**1,916,357**	1,791,961
Current employees		
Vested	**17,397,958**	14,819,162
Non-vested	**1,608,036**	1,822,064
Total pension benefit obligation	**28,288,630**	25,529,043
Net assets available for benefits, at fair value	**20,052,608**	18,309,320
Net assets less than pension obligation	**$ (8,236,022)**	$ (7,219,723)

NOTE 5 - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using a projected unit credit cost actuarial funding method. Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

During the years ended December 31, 2005 and 2004, contributions totaling approximately $1,437,468 (5.07% of annual covered payroll) and $1,266,049 (4.61% of annual covered payroll), respectively, were made by the Healthcare System in accordance with contribution requirements determined by actuarial valuations of the Plan as of January 1, 2005 and 2004, respectively. Included in the contributions for 2005 and 2004 were 1.24% and 1.05%, respectively of covered payroll for amortization of the unfunded actuarial accrued liability.

(continued on next page)

NOTE 6 - PLAN TERMINATION

Although the Healthcare System has expressed no intent to terminate the Plan agreement, it may do so at any time subject to the provisions of any collective bargaining agreement in effect at the time. In the event the Plan terminates, the net assets of the Plan will be allocated, as prescribed by the Plan provisions, generally to provide the following benefits in the order indicated:

1. To provide pensions for participants who are receiving benefits under the Plan on the date of termination.
2. To provide pensions for participants who have attained age 62 prior to the date of termination.
3. To provide pensions for participants who have attained age 55 prior to the date of termination.
4. To provide benefits for all other participants according to the respective actuarial values of their accrued pension benefits as of the date of termination.

NOTE 7 - TAX STATUS

The Internal Revenue Service has determined and informed the Healthcare System, in a letter dated October 8, 2002, that the Plan and the related trust are designed in accordance with the applicable section of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Dickinson County Healthcare System Retirement Plan

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN
SCHEDULE OF FUNDING PROGRESS

Schedule 1

Actuarial Valuation Date January 1,	Actuarial Value of Assets (A)		Actuarial Accrued Liability (AAL) Entity Age (B)	Unfunded (Over funded) AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1998	$ 13,885,582		$ 13,711,700	$ (173,882)	101.3%	$ 18,263,718	None
1999	15,450,547		15,070,596	(379,951)	102.5%	18,196,550	None
2000	16,594,008	(1)	17,077,420	483,412	97.2%	19,199,488	2.5%
2001	17,350,393		17,900,143	549,750	96.9%	20,230,483	2.7%
2002	17,877,814		19,670,350	1,792,536	90.9%	22,731,116	7.9%
2003	17,937,014		21,475,804	3,538,790	83.5%	25,120,050	14.1%
2004	18,362,968		23,419,743	5,056,775	78.4%	25,928,381	19.5%
2005	19,162,658		25,529,043	6,366,385	75.1%	27,446,909	23.2%
2006	20,502,113		28,288,630	7,786,517	72.5%	28,334,280	27.5%

(1) The January 1, 2000, and subsequent actuarial valuations included a change in the method for recognizing assets for valuation purposes. The new method spreads returns above and below the assumed 8.5% rate of return over a five year period.

Analysis of the dollar amounts of net assets held in trust for benefits, pension benefit obligation and unfunded pension obligation in isolation can be misleading. Expressing the net assets held in trust for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient asset to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See Notes to Required Supplementary Schedules

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Schedule 2

Year Ended December 31,	Annual Recommended Contribution	Percentage Contributed
1998	$ 679,931	100%
1999	707,628	100%
2000	731,774	100%
2001	838,634	100%
2002	873,046	100%
2003	1,047,791	100%
2004	1,266,051	100%
2005	1,437,468	100%

See Notes to Required Supplementary Schedules

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN
NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions	
Investment rate of return	8.5%
Projected annual salary increases	5.16 - 8.84%